

***CITY OF WALTHAM, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2007***



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To the Honorable Mayor Jeannette A. McCarthy  
and Members of the City Council  
City of Waltham, Massachusetts

In planning and performing our audit of the basic financial statements of the City of Waltham, Massachusetts as of and for the fiscal year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered City of Waltham, Massachusetts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Waltham, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Waltham, Massachusetts' internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

This communication is intended solely for the information and use of management of City of Waltham, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

December 14, 2007

CITY OF WALTHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2007

**TABLE OF CONTENTS**

**PAGE**

<b><i>Comments and Recommendations</i></b> .....	1
Statement No. 45 of the Governmental Accounting Standards Board.....	2
School Grants - Timeliness of Reconciliation Procedures .....	3
Evaluate the Existing Accounting System .....	3
Fraud Risk Assessment.....	4

## ***Comments and Recommendations***

## STATEMENT NO. 45 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

### Prior Comment

In July of 2004, the Governmental Accounting Standards Board (the GASB) issued Statement No. 45 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement improves the relevance and usefulness of financial reporting by (a) requiring a systematic, accrual-basis measurement and recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current substantive plan (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The parameters require that the selection of actuarial assumptions, including the healthcare cost trend rate for postemployment healthcare plans, be guided by applicable actuarial standards. Failure to obtain an actuarial valuation will result in a qualification to the independent auditors' opinion on the basic financial statements.

Net OPEB obligations, if any, including amounts associated with under- or overcontributions from governmental funds, should be displayed as liabilities (or assets) in government-wide financial statements. Similarly, net OPEB obligations associated with proprietary or fiduciary funds from which contributions are made should be displayed as liabilities (or assets) in the financial statements of those funds.

An employer's net OPEB obligation is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. (Because retroactive application of the measurement requirements of this Statement is not required, for most employers the OPEB liability at the beginning of the transition year will be zero.) An employer with a net OPEB obligation is required to measure annual OPEB cost equal to (a) the annual required contribution (ARC), (b) one year's interest on the net OPEB obligation, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under- or overcontributions.

This Statement generally provides for prospective implementation—that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The City is required to implement this statement in fiscal 2008 although earlier implementation is encouraged.

### Recommendation

We recommend that management take a proactive approach to the planning and implementation of GASB Statement No.45. The most important consideration in the planning process is obtaining an actuarial valuation.

Current Status – *Pending implementation.* The City has contracted with an actuary to calculate the City's OPEB obligation. The City has received a draft actuarial report as of the date of this report.

## **SCHOOL GRANTS – TIMELINESS OF RECONCILIATION PROCEDURES**

### Prior Comment

In the prior year management letter, we indicated that the School grants are recorded and identified on the general ledger by grant name and fiscal year (i.e. SPED FY06, SPED FY05, etc.). We noted that while the aggregate balances were correct, the individual grants balances were, in most cases, not accurate.

These errors resulted from the School Department coding revenue and expenditure activity to the wrong fiscal year. They were not detected and corrected on a timely basis because monthly reconciliations between the general ledger and the School Department's grant records were not performed. Since the City's grant reporting and compliance is based on the general ledger balances, it is very important that these balances and the related activity are correct.

We recommended that the City adopt a policy requiring monthly reconciliation of all general ledger grant balances and activity to the School grant records. Reconciliations quickly identify errors and ensure the accuracy of the monthly financial statements and underlying documentation. When reconciliations are performed infrequently errors can occur and remain uncorrected for a significant period of time.

Current Status – *Resolved*. The City has implemented reconciliation procedures and has corrected the grant balances.

## **EVALUATE THE EXISTING ACCOUNTING SYSTEM AND– ENHANCE BUDGETARY CONTROL**

### Prior Comment

In the prior year management letter, we indicated that the computer software used to capture the general ledger accounting activity was acquired several years ago. Since that time, the growth of the City has significantly affected its accounting and reporting requirements. Industry trends have produced and keep introducing new applications that enhance reporting capabilities and increase productivity. At present, the City is very dependent on Excel spreadsheets for financial reporting. We believe that the City can reduce the use of Excel spreadsheets by migrating towards system generated reports.

We recommended that the City consider evaluating the capability of its existing accounting system in meeting its short and long-term reporting requirements. Both the City and School should collaborate in a search to find a more comprehensive financial software application.

This evaluation should focus on ensuring that both the City and School's financial reporting requirements and the information needs of management are met.

Current Status – *Partially Resolved*. The City has appropriated \$200,000 towards the beginning of this project and the Auditor's Office is evaluating various software applications and, based on early assessments, it is anticipated that additionally funding will be needed to implement a fully integrated system.

## FRAUD RISK ASSESSMENT

### Prior Comment

In the prior year management letter, we indicated that the opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the City perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the City's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the City that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the City, its environment, and its processes. The fraud risk assessment process should consider the City's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the City are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

We recommended that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

Current Status – Progress made. To date, the Auditor's Office has assessed certain cash collection activities and payroll functions and intends to continue the risk analysis of other City functions. This process is ongoing and it is anticipated that additional progress will be made in fiscal 2008.